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## **Internal Auditor's Report**

To the County Council and Acting County Executive of Wicomico County, Maryland:

Pursuant to Section 305(D) of the Wicomico County Code and Council Resolution No. 91-2020, the Office of the Internal Auditor (IA) has conducted a Civic Center Events Revenue Study. A report is submitted herewith. The purpose of the study was to understand the accounting, contractual arrangements, and profit and loss for events at the Wicomico County Youth & Civic Center.

IA conducted the project with due professional care, and IA planned and performed the study to obtain reasonable assurance about whether selected current practices comply with applicable policies and procedures and whether those policies and procedures are adequate to obtain an acceptable level of control.

IA extends appreciation to Management and Staff at the Civic Center for their timely assistance, cooperation, and candid assessment of selected processes.

Respectfully submitted,

*Levin J. Hitchens*

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Internal Auditor

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## Audit Report

### Overview

The Wicomico Youth & Civic Center (WYCC) may be most widely known in our area for hosting concerts, shows, and family entertainment from big-name acts. Contract agreements, revenue structure, and risk for entertainment events are more complex than the other types of events that WYCC hosts. The entertainment category represents about eight percent of the events and a third of net event revenue. The other ninety percent of events involve the following categories:

Event Type	Description
Trade Shows	Craft fairs and conventions
Sports Marketing	Sporting events and dog shows
Corporate	Room use by private business entities
Education	Local school or college events such as graduation or registration
Social	Private family events or weddings
Fraternal	Room use by clubs and similar organizations
Religious	Room use by religious groups or similar organizations
Government	Room use by government entities
Miscellaneous	Events that do not fit above categories

In FY2019, the Civic Center hosted 364 events. 360 of those events were in categories in the above table. By nature, WYCC hosts many of those events quietly without heavy advertising. Most events when measured as a standalone endeavor result in positive net revenue. There were a few instances in the sample where an event resulted in a loss, most notably were two Broadway shows that cancelled due to unforeseen circumstances and the losses were due mostly to advertising.

### Audit Objectives

The objectives of the audit were to:

1. Gain an understanding of accounting for events
2. Gain an understanding of contractual arrangements for events
3. Evaluate profit and loss for events

### Scope of the Audit

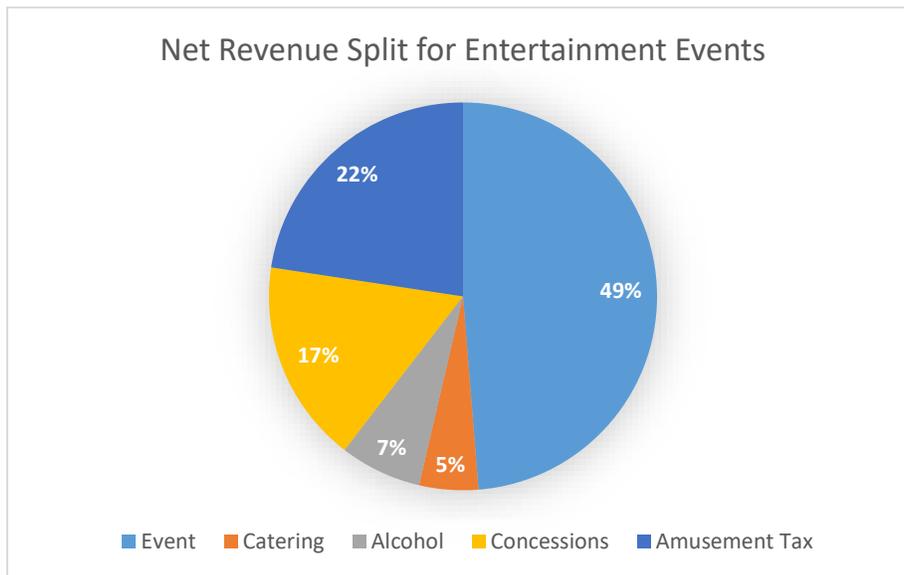
The period examined was fiscal year 2019. With the onset of the COVID-19 pandemic, FY2019 provided a full year of data and a sample that is hopefully more representative of a typical year for the WYCC versus FY2020 that was disrupted about two-thirds of the way through. IA held interviews with appropriate personnel and examined various documents including but not limited to the following:

- Event show contracts and settlement sheets
- Business summary reports
- Committee minutes

## General Statistics and Highlights

### Entertainment Events

Entertainment events have several revenue streams. The promoter of the event pays WYCC some agreed upon amount, usually a combination of a base rate for the venue and a share of the tickets sold. Rates vary based on historical performance, industrial norms and knowledge, and risk. For some events, there is also a profit-sharing mechanism in place for WYCC to receive revenue from the merchandise sold. Catering, concessions, alcohol sales, and amusement taxes round out the itemized revenue for entertainment events. Collectively these four categories account for 51% of net entertainment revenue versus 49% net revenue received from tickets and merchandise sharing.



Entertainment events account for approximately one-third of WYCC's net events revenue. The net proceeds per event is approximately \$10,600, which is the second highest among all categories. Allowing more of these entertainment events seems like it would be a sure way to increase the bottom line at WYCC. However, there are logistical and industrial limitations to the number of events, especially in a small market like Wicomico County. Logistically, there are physical demands on the building, such as preparation for the show and breakdown of the show (usually specific setups required). An overambitious schedule would come with increased risk of not being able to meet the obligations and deadlines required for a successful event. As an industry, promoters realize that household budget limitations exist, especially in a smaller market. Thus, promoters have been unwilling to bring an act or show from the same genre too close to another, due to market oversaturation risk.

WYCC has a robust system in place for tracking their individual events. Upon show completion, a profit and loss summary reports data from Ungerboeck (WYCC's box office revenue and booking software) and MUNIS (Wicomico County's Enterprise Resource Planning Software). The data is further itemized onto an event settlement sheet that is reviewed and signed by WYCC's building manager and finance manager as well as a representative from the promoter.

### Beer & Wine Sales

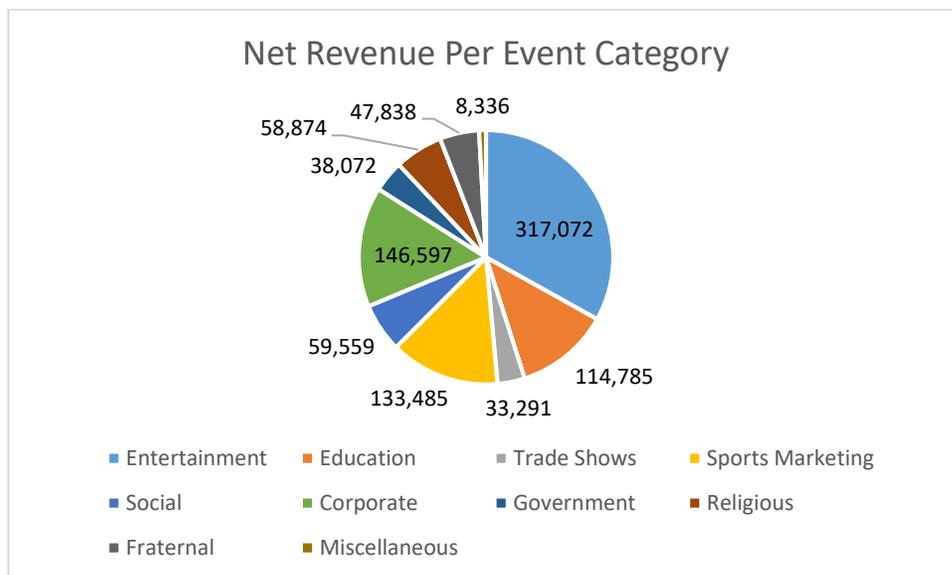
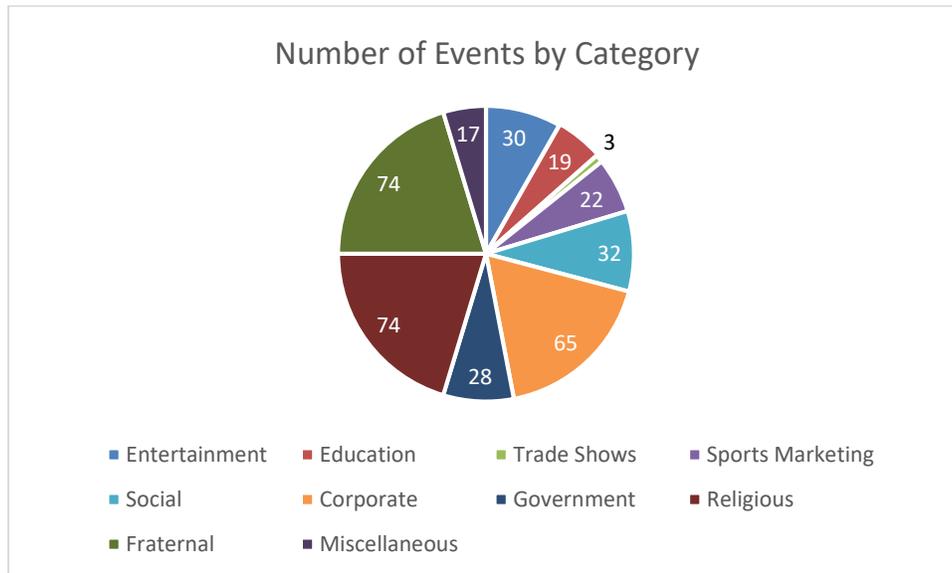
In FY2019, WYCC had gross beer and wine sales of \$98,354 with net revenue of \$38,948.

### Additional Revenue from Events

In FY2019, the WYCC Box Office had net proceeds of \$33,917 from ticket processing fees. WYCC also added \$114,208 to its restoration fund via room and ticket fees.

### Event Statistics

The following charts show summaries of all events. In the first table is the frequency of events by event type. In the second table is the net revenue by event type for FY19.



Not considering overhead costs such as full-time salaries, benefits, or building costs, events netted \$957,908 during FY19. Overall, when adding back in overhead, WYCC operates at a loss. IA compared WYCC's FY19 financials to two similar governmental entertainment and cultural centers in the region. During FY19, WYCC received inter-fund transfers \$958,000, while the other two convention centers in the region received inter-fund transfers of \$1,053,000 and \$1,488,000.

### COVID-19 Pandemic

At the time this report, pandemic restrictions are still underway, one that disallows entertainment gatherings of more than 100 people is very restrictive for WYCC. WYCC is a unique department; it was once an enterprise fund until recently converted to a special governmental fund. Under both scenarios, WYCC is ran more like a business than a typical general fund department. However, management is conscientious of their role as an asset to the community and takes precautions not to hold events that compete with existing private enterprises. For instance, WYCC holds a food and beverage license and could operate similar to a restaurant with plenty of space for social distancing. This pivot from their normal operations could potentially harm small businesses.

WYCC has been operating mostly as a civic or community center for mostly since March 2020 because of the lack of entertainment events available. Some examples of events that occur or have occurred in the past year following proper social distancing guidelines have been:

Church services	Jury duty	Funerals
Wicomico County meetings	Early election voting	Sports practices
Private corporate meetings	Weddings & receptions	Kids Klub

### Conclusion

Based upon the review and analyses performed during the project, IA rates the overall system at a satisfactory level.

### Schedule of Findings and Recommendations

#### 1. Trade Shows

An analysis of the average net proceeds of the various event categories showed trade shows ranked highest for net revenue per event. In the sample period, WYCC hosted three trade show events. Trade shows seem unique compared to the nine other categories in that 95% of the revenue is venue rental and/or ticket sales, which means they may provide a more predictable net revenue versus other categories that rely heavily on concessions sales. IA would recommend management consider an increased focus on attracting trade show vendors to book their events at WYCC.

#### 2. Customer Surveys

Inevitably, restrictions from the state-level will ease and the ability to hold entertainment events will return in some feasible manner. IA recommends WYCC use their extensive customer email list to solicit ideas for homegrown events to help close the gap in the timeframe when events are allowed to take place and the shows actually happen. Further, surveys could gauge the public’s willingness to participate in events given the pandemic environment to increase the likelihood of holding successful events.

### Auditor’s Closing Remark

The Wicomico County Office of the Internal Auditor would like to thank Management and staff from the Wicomico County Youth & Civic Center for their timely cooperation and assistance during the audit.